

Francis F. Reh Public School Academy

Financial Report
with Supplemental Information
June 30, 2008

Francis F. Reh Public School Academy

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Independent Auditor's Report

To the Board of Directors
Francis F. Reh Public School Academy

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Francis F. Reh Public School Academy (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Francis F. Reh Public School Academy's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Francis F. Reh Public School Academy as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Francis F. Reh Public School Academy

In accordance with *Government Auditing Standards*, we have also issued our report, under separate cover dated October 14, 2008, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 14, 2008

Francis F. Reh Public School Academy

Management's Discussion and Analysis

This section of Francis F. Reh Public School Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Francis F. Reh Public School Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund - the General Fund - with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Fund

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's basic financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Francis F. Reh Public School Academy

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy establishes other funds to help it control and manage money for particular purposes (the Food Services Fund is an example) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental Funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Francis F. Reh Public School Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2008 and 2007.

TABLE I	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 1,368,891	\$ 1,633,162
Capital assets	322,777	97,406
Total assets	1,691,668	1,730,568
Liabilities - Current liabilities		
	332,387	308,513
Net Assets		
Invested in capital assets	322,777	97,406
Unrestricted	1,036,504	1,324,649
Total net assets	<u>\$ 1,359,281</u>	<u>\$ 1,422,055</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$1,359,281 at June 30, 2008. Capital assets, totaling \$322,777, compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. The Academy has no outstanding long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The Academy has no restricted net assets. The remaining amount of net assets (\$1,036,504) was unrestricted.

The \$1,036,504 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Francis F. Reh Public School Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

	2008	2007
Revenue		
Program revenue:		
Charges for services	\$ 3,129	\$ 3,048
Federal grants and entitlements	681,325	573,072
State categoricals	154,631	260,734
Operating grants	11,400	9,269
General revenue:		
State foundation allowance	1,880,712	1,870,146
Gain on disposal of assets	-	87,021
Other	84,559	9,852
Total revenue	2,815,756	2,813,142
Functions/Program Expenses		
Instruction	1,028,521	1,083,561
Support services	1,414,369	1,388,559
Food services	154,666	159,583
Athletics	-	390
Community services	2,252	727
Intergovernmental transfers	179,942	-
Depreciation (unallocated)	98,780	87,070
Total functions/program expenses	2,878,530	2,719,890
(Decrease) Increase in Net Assets	\$ (62,774)	\$ 93,252

As reported in the statement of activities, the cost of all of our governmental activities this year was \$2,878,530. Certain activities were partially funded by those who benefited from the programs (\$3,129) or by other governmental agencies and organizations that subsidized certain programs with grants (\$847,356). We paid for the remaining "public benefit" portion of our governmental activities with \$1,880,712 in state foundation allowance and with our other revenues, i.e., interest and general entitlements.

Francis F. Reh Public School Academy

Management's Discussion and Analysis (Continued)

The Academy experienced a decrease in net assets of \$62,774. The key reason for the change was the Academy's decision to use some of the fund balance to improve the instructional program.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$1,036,504, which is a decrease of \$264,760 from last year. The primary reason for the decrease is again the Academy's decision to spend some fund balance for the instructional program.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these basic financial statements.

There were significant revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased by \$195,279 due to the increase in federal revenue for the Academy acting as fiscal agent for the mentoring grant. Budgeted expenditures were increased \$381,788 to account for the increase in salaries and purchased professional services resulting from the Academy's revised operating plan and some facilities acquisition expenses. The amount of transfers to other funds established in the amended budget was \$8,508 and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

Francis F. Reh Public School Academy

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the Academy had \$322,777 invested in a broad range of capital assets, including buildings (modular unit), leasehold improvements, site improvements, and furniture and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$225,000, or 231 percent, from last year.

	2008	2007
Buildings	\$ 185,917	\$ -
Leasehold improvements	34,277	9,721
Site improvements	-	62,170
Furniture and equipment	102,583	25,515
Total capital assets	<u>\$ 322,777</u>	<u>\$ 97,406</u>

No major capital projects are planned for the 2008-2009 fiscal year. We anticipate capital additions will be much less than the 2007-2008 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our board of directors and administration consider many factors when setting the Academy's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 budget was adopted in May 2008, based on an estimate of students who will be enrolled in September 2008. Approximately 71 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2009 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2009 budget. Once the final student count and related per pupil funding are validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent revenue-estimating conference, the State estimates funds may not be sufficient to fund the appropriation.

Francis F. Reh Public School Academy

Statement of Net Assets June 30, 2008

	Governmental Activities
Assets	
Cash (Note 3)	\$ 874,426
Accounts receivable	458,417
Prepaid costs	36,048
Capital assets - Net (Note 5)	<u>322,777</u>
Total assets	1,691,668
Liabilities	
Accounts payable	19,921
Accrued payroll and other liabilities (Note 7)	250,073
Deferred revenue (Note 4)	<u>62,393</u>
Total liabilities	<u>332,387</u>
Net Assets	
Investment in capital assets	322,777
Unrestricted	<u>1,036,504</u>
Total net assets	<u><u>\$ 1,359,281</u></u>

Francis F. Reh Public School Academy

Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 1,028,521	\$ -	\$ 279,289	\$ (749,232)
Support services	1,414,369	-	242,761	(1,171,608)
Food services	154,666	3,129	145,364	(6,173)
Community services	2,252	-	-	(2,252)
Intergovernmental transfers (Note 9)	179,942	-	179,942	-
Depreciation (unallocated)	98,780	-	-	(98,780)
Total governmental activities	<u>\$ 2,878,530</u>	<u>\$ 3,129</u>	<u>\$ 847,356</u>	(2,028,045)
General revenues:				
State aid not restricted to specific purposes				1,880,712
Other				<u>84,559</u>
Total general revenues				<u>1,965,271</u>
Decrease in Net Assets				(62,774)
Net Assets - Beginning of year				<u>1,422,055</u>
Net Assets - End of year				<u>\$ 1,359,281</u>

Francis F. Reh Public School Academy

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Nonmajor Governmental Fund - Food Service Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 874,426	\$ -	\$ 874,426
Accounts receivable	458,417	-	458,417
Prepaid costs	36,048	-	36,048
Total assets	<u>\$ 1,368,891</u>	<u>\$ -</u>	<u>\$ 1,368,891</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 19,921	\$ -	\$ 19,921
Accrued payroll and other liabilities (Note 7)	250,073	-	250,073
Deferred revenue (Note 4)	62,393	-	62,393
Total liabilities	332,387	-	332,387
Fund Balances			
Reserved - Prepaid costs	36,048	-	36,048
Unreserved - Undesignated - Reported in General Fund	1,000,456	-	1,000,456
Total fund balances	1,036,504	-	1,036,504
Total liabilities and fund balances	<u>\$ 1,368,891</u>	<u>\$ -</u>	<u>\$ 1,368,891</u>

Francis F. Reh Public School Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Fund Balance - Total governmental funds \$ 1,036,504

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and are not reported
in the governmental funds:

Cost of capital assets	\$ 957,229	
Accumulated depreciation	<u>(634,452)</u>	<u>322,777</u>

Net Assets - Governmental activities \$ 1,359,281

Francis F. Reh Public School Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Fund - Food Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 32,359	\$ 3,129	\$ 35,488
State sources	2,031,073	4,270	2,035,343
Federal sources	563,616	141,094	704,710
Intermediate sources	4,850	-	4,850
Interdistrict sources	6,550	-	6,550
Total revenue	2,638,448	148,493	2,786,941
Expenditures			
Current:			
Instruction	1,030,830	-	1,030,830
Support services	1,412,060	-	1,412,060
Community services	2,252	-	2,252
Capital outlay	324,151	-	324,151
Food services	-	154,666	154,666
Intergovernmental transfers (Note 9)	179,942	-	179,942
Total expenditures	2,949,235	154,666	3,103,901
Deficiency of Revenue Over Expenditures	(310,787)	(6,173)	(316,960)
Extraordinary Item - Proceeds from insurance	52,200	-	52,200
Other Financing Sources (Uses)			
Transfers in	-	6,173	6,173
Transfers out	(6,173)	-	(6,173)
Total other financing sources (uses)	(6,173)	6,173	-
Net Change in Fund Balances	(264,760)	-	(264,760)
Fund Balances - Beginning of year	1,301,264	-	1,301,264
Fund Balances - End of year	<u>\$ 1,036,504</u>	<u>\$ -</u>	<u>\$ 1,036,504</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Francis F. Reh Public School Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total governmental funds \$ (264,760)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Depreciation expense	\$ (98,780)	
Capitalized capital outlay	<u>324,151</u>	225,371

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection		<u>(23,385)</u>
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Change in Net Assets of Governmental Activities **\$ (62,774)**

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of Francis F. Reh Public School Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On August 14, 1998, the Academy entered into a five-year contract with the Ferris State University Board of Trustees to charter a public school academy, which was subsequently extended through June 30, 2011. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. Ferris State University is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy paid the Ferris State University Board of Trustees 3 percent of the state aid foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2008 due to Ferris State University were approximately \$56,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund is the Food Service Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Assets, Liabilities, and Net Assets or Equity

Cash - Cash includes cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as due to/from other funds.

All receivables, primarily intergovernmental receivables, are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Capital Assets - Capital assets, which include leasehold improvements, site improvements, furniture, and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Leasehold improvements, site improvements, furniture, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	15 years
Leasehold improvements	2-9 years
Site improvements	4-9 years
Furniture and other equipment	3-7 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy did not have significant expenditure budget variances.

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated two banks for deposit of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$899,877 had \$748,708 of bank deposits (checking account) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Deferred revenue	\$ -	\$ 62,393

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions and Reclassifications	Disposals	Balance June 30, 2008
Capital assets being depreciated:				
Buildings	\$ -	\$ 194,000	\$ -	\$ 194,000
Leasehold improvements	48,809	35,323	-	84,132
Site improvements	439,107	-	-	439,107
Furniture and equipment	<u>162,714</u>	<u>94,828</u>	<u>(17,552)</u>	<u>239,990</u>
Subtotal	650,630	324,151	(17,552)	957,229
Accumulated depreciation:				
Buildings	-	8,083	-	8,083
Leasehold improvements	39,088	10,767	-	49,855
Site improvements	376,937	62,170	-	439,107
Furniture and equipment	<u>137,199</u>	<u>17,760</u>	<u>(17,552)</u>	<u>137,407</u>
Subtotal	<u>553,224</u>	<u>98,780</u>	<u>(17,552)</u>	<u>634,452</u>
Net governmental capital assets	<u>\$ 97,406</u>	<u>\$ 225,371</u>	<u>\$ -</u>	<u>\$ 322,777</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Operating Lease

The Academy has entered into an operating lease agreement for a building through June 30, 2011, with the option to renew for an additional five-year term. The Academy is responsible for insurance, repairs, and maintenance related to the facilities. The Academy incurred rent expense in connection with the lease of approximately \$272,000 for the year ended June 30, 2008. Minimum annual lease payments are calculated at 15 percent of the state foundation allowance for every student based on the September count, due in equal monthly installments.

Francis F. Reh Public School Academy

Notes to Financial Statements June 30, 2008

Note 7 - Management Company

The Academy has entered into a management agreement effective through June 30, 2011. The management company is responsible for all of the management, operation, administration, and education at the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. In addition, the Academy pays a management fee of 10 percent of gross revenues of the Academy, excluding grants from the authorizer and proceeds from borrowings. Effective July 1, 2008, the management fee will increase to 12 percent under an extended management agreement.

The Academy incurred management fees totaling \$265,435 for the year ended June 30, 2008. At June 30, 2008, accrued expenses included \$33,868 for the payment of management fees and approximately \$187,000 for reimbursement of subcontracted employees and other operating costs.

For the year ended June 30, 2008, federal grant expenditures included \$39,750 paid to the management company for services including testing, assessment, curriculum, technical support, professional development, student support, school improvement, parental involvement activities, project supervision, grant administration, and reimbursement for indirect costs.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company discussed in Note 7. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverages since inception.

Note 9 - Fiscal Agent

The Academy serves as fiscal agent for the safe and drug-free schools - community service grants federal grant. As a fiscal agent, the Academy is responsible for drawing down federal funds and passing the funds to its subrecipients when expenditures are incurred. The amount of grant funds received the Academy for the year ended June 30, 2008 was approximately \$252,000. Of this amount, approximately \$180,000 was passed to its subrecipients and approximately \$72,000 was expended by the Academy on its own federal programs.

Required Supplemental Information

Francis F. Reh Public School Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ -	\$ 32,630	\$ 32,359	\$ (271)
State sources	2,078,076	2,041,276	2,031,073	(10,203)
Federal sources	428,889	617,395	563,616	(53,779)
Intermediate sources	-	4,850	4,850	-
Interdistrict sources	-	6,093	6,550	457
Total revenue	2,506,965	2,702,244	2,638,448	(63,796)
Expenditures - Current				
Instruction:				
Basic programs	861,208	753,453	732,170	(21,283)
Added needs	328,839	352,116	317,792	(34,324)
Support services:				
Pupil	155,273	162,775	164,482	1,707
Instructional staff	184,282	239,847	221,808	(18,039)
General administration	194,543	199,985	198,772	(1,213)
School administration	250,273	267,568	264,329	(3,239)
Business services	141,612	90,772	85,237	(5,535)
Operation and maintenance	380,166	469,101	438,221	(30,880)
Pupil transportation services	4,345	10,590	9,808	(782)
Central	129,646	125,229	105,388	(19,841)
Community services	1,600	3,105	2,252	(853)
Facilities acquisitions	-	229,034	229,034	-
Intergovernmental transfers	70,000	180,000	179,942	(58)
Total expenditures	2,701,787	3,083,575	2,949,235	(134,340)
Extraordinary Item - Proceeds from insurance	-	52,200	52,200	-
Other Financing Uses - Transfers out	(4,745)	(8,508)	(6,173)	2,335
Net Change in Fund Balance	(199,567)	(337,639)	(264,760)	72,879
Fund Balance - July 1, 2007	1,160,684	1,301,264	1,301,264	-
Fund Balance - June 30, 2008	<u>\$ 961,117</u>	<u>\$ 963,625</u>	<u>\$ 1,036,504</u>	<u>\$ 72,879</u>